



Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Curtailment Procedures

A.15-06-020

RESPONSE OF SHELL ENERGY NORTH AMERICA (US), L.P., THE ALLIANCE FOR RETAIL ENERGY MARKETS, COMMERCE ENERGY, CITY OF VERNON, GAS AND POWER TECHNOLOGIES, INC., GREENWAVE ENERGY, LLC AND PACIFIC SUMMIT ENERGY, LLC TO SOCALGAS/SDG&E MOTION REQUESTING TEMPORARY DAILY BALANCING

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Date: March 16, 2016

# BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Curtailment Procedures

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RESPONSE OF SHELL ENERGY NORTH AMERICA (US), L.P., THE ALLIANCE FOR RETAIL ENERGY MARKETS, COMMERCE ENERGY, CITY OF VERNON, GAS AND POWER TECHNOLOGIES, INC., GREENWAVE ENERGY, LLC AND PACIFIC SUMMIT ENERGY, LLC TO SOCALGAS/SDG&E MOTION REQUESTING TEMPORARY DAILY BALANCING

In accordance with Rule 11.1 of the Commission's Rules, Shell Energy North America (US), L.P., The Alliance for Retail Energy Markets, Commerce Energy, City of Vernon, Gas and Power Technologies, Inc., Greenwave Energy, LLC, and Pacific Summit Energy, LLC

<sup>&</sup>lt;sup>1</sup> The Alliance for Retail Energy Markets ("AReM") is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

(collectively, the "Joint Parties")<sup>2</sup> file this response in opposition to the "Motion of [SoCalGas and SDG&E] for an Interim Order Establishing Temporary Daily Balancing Requirements," which was filed on March 1, 2016. The SoCalGas/SDG&E motion should be dismissed. The relief requested in the motion is outside the scope of issues identified for consideration in this proceeding. The utilities' proposal for daily balancing requires the submission of a formal application with accompanying testimony in accordance with Commission Rule 2.1. The utilities' proposal raises numerous factual issues that must be addressed in an evidentiary hearing in which alternatives to the utilities' proposal are given equal consideration.

Furthermore, SoCalGas/SDG&E's motion fails to establish a need to impose a "universal" daily balancing requirement. The Commission expanded the utilities' operational flow order ("OFO") authority in D.15-06-004 (June 11, 2015) to address circumstances of "system stress." The utilities fail to demonstrate that existing operational procedures, including the recently approved "low OFO" protocol, are not adequate to address the reliability concerns asserted in the motion.

Finally, SoCalGas/SDG&E's motion exposes a current inequity in the utilities' OFO protocol, which promises to be highlighted if universal daily balancing is implemented. Under current rules, the utilities measure <u>noncore</u> customers' compliance with daily balancing based on actual noncore usage. By contrast, the utilities measure <u>core</u> customers' compliance with daily balancing based on a forecast of core usage that is prepared by SoCalGas. This differential treatment of core customers and noncore customers provides SoCalGas' core procurement department with operational flexibility that is used to benefit SoCalGas/SDG&E's shareholders through the Gas Cost Incentive Mechanism ("GCIM").

<sup>&</sup>lt;sup>2</sup> Shell Energy is a party to this proceeding. Commerce Energy, AReM, City of Vernon, Gas and Power Technologies, Inc., Greenwave Energy, LLC and Pacific Summit Energy, LLC have filed motions to intervene in the proceeding.

If a "universal" daily balancing requirement were to be adopted, SoCalGas would be able to expand upon the advantages that its core procurement department currently enjoys in the daily imbalance trading market. To address this inequity, whether or not the Commission considers a daily balancing requirement, the Commission should align the gas measurement criteria for core and noncore customers.

In short, SoCalGas/SDG&E's motion presents a proposal that is firmly rooted in commercial opportunism by the utilities. The utilities seek to take advantage of reliability concerns raised as a result of the Aliso Canyon debacle to implement a daily balancing requirement that the utilities have coveted for many years. Conditions that have arisen as a result of problems at Aliso Canyon do not justify adoption of a universal daily balancing requirement, even on a "temporary" one-year basis.

Adoption of universal daily balancing should be avoided, particularly because universal daily balancing would discriminate against noncore customers, while benefitting the utilities. If SoCalGas/SDG&E wish to initiate a process to consider more broadly how to address limitations on the operation of Aliso Canyon, the proper avenue is through an application, with the opportunity for testimony, cross-examination, and the presentation of alternatives. The utilities' March 1, 2016 motion should be dismissed.

I.

# THE UTILITIES' PROPOSED CHANGE TO THEIR BALANCING RULES IS OUTSIDE THE SCOPE OF THIS PROCEEDING

The November 6, 2015 Scoping Memo in this proceeding lists the issues to be addressed in connection with SoCalGas and SDG&E's June 2015 "curtailment" application. All of the issues in the Scoping Memo relate directly to SoCalGas/SDG&E's proposal to revise their curtailment procedures. The identified issues do not extend to an examination of

SoCalGas/SDG&E's balancing rules. SoCalGas/SDG&E's motion to institute a "temporary" daily balancing obligation is outside the scope of issues to be addressed in this proceeding. For this reason alone, the motion should be dismissed.

As described in the Scoping Memo (and in SoCalGas/SDG&E's curtailment application), this proceeding is limited to consideration of SoCalGas/SDG&E's end-use curtailment rules, including the order of curtailment among noncore customers, possible establishment of local curtailment "zones," and potential elimination of the distinction between "firm" and "interruptible" noncore transportation service. See Scoping Memo at pp. 3-4. Possible changes to SoCalGas/SDG&E's balancing rules are not addressed by any of the SoCalGas/SDG&E witnesses who sponsored the testimony accompanying this application. There is no indication that the witnesses sponsoring SoCalGas/SDG&E's curtailment proposal are competent to address factual issues related to the utilities' daily balancing proposal.

SoCalGas/SDG&E's motion nevertheless attempts to link the utilities' daily balancing proposal to this curtailment application by characterizing universal daily balancing as a "curtailment-reduction proposal" that would "augment the proposals in this proceeding to modernize SoCalGas and SDG&E's curtailment rules." Motion at p. 1. Under this logic, SoCalGas could file a motion in this proceeding to construct a new storage facility or to expand its pipeline capacity. There is no end to potential proposals by SoCalGas/SDG&E to "reduce the potential for curtailments" on its system. Yet "curtailment reduction" proposals are not within the scope of this proceeding, which is devoted to examining the utilities' curtailment protocol.

For example, in D.15-06-004 (June 11, 2015), in which the Commission approved a low OFO protocol for SoCalGas/SDG&E, the Commission cited statements by SoCalGas/SDG&E that the <u>low OFO</u> protocol was intended to reduce the likelihood of a curtailment of noncore

service. Decision at pp. 3, 12-13. Nevertheless, in that Decision, the Commission concluded that consideration of SoCalGas/SDG&E's curtailment rules should be addressed separate and apart from consideration of SoCalGas/SDG&E's low OFO protocol. The Commission <u>declined</u> to address SoCalGas/SDG&E's curtailment rules in the low OFO proceeding. <u>Id</u>. at pp. 32, 39 (Conclusion of Law No. 9).

The utilities assert that current problems at the Aliso Canyon storage facility justify imposition of daily balancing for a one-year period. See Motion at p. 6. The utilities fail, however, to explain why or how their daily balancing proposal should be addressed in this proceeding. As discussed below, the "system stress" issues that the utilities claim to arise from Aliso Canyon can be fully addressed through the low OFO protocol that was updated in D.15-06-004. In any event, daily balancing is not a proper subject for this curtailment application proceeding.

Finally, problems associated with Aliso Canyon raise numerous issues respecting the impact on reliability, the availability of Aliso Canyon for use during the injection season this summer, and who bears responsibility for the costs associated with the gas well leak, its repairs, and the aftermath. Carving out a single Aliso Canyon-related issue (in a proceeding devoted to a separate matter) would be highly inefficient and inappropriate. As discussed below, the utilities should file an application to address Aliso Canyon issues. Alternatively, the Commission should institute its own investigation.

# IF THE UTILITIES SEEK TO IMPLEMENT UNIVERSAL DAILY BALANCING, THE PROPOSAL SHOULD BE ADVANCED THROUGH AN APPLICATION, NOT A MOTION

SoCalGas/SDG&E's request for an "interim order" temporarily imposing a daily balancing obligation, with a 5 percent imbalance tolerance band, seeks a dramatic change to balancing rules that have been in place on the SoCalGas/SDG&E system for many years. A proposal to fundamentally change the utilities' balancing rules must be made through a formal application, with supporting testimony and the associated due process protections, in accordance with Commission Rule 2.1. This proposal should not be advanced through a motion in an existing proceeding that is devoted to other issues.

Moreover, a monumental change in SoCalGas/SDG&E's balancing rules -- even if proposed for a "temporary" period -- should not be considered based solely on representations by counsel for the utilities. Issues concerning the need for a daily balancing obligation, the protocols for a daily balancing obligation, and the impacts of a daily balancing obligation on customers and the competitive gas supply market, all of which are matters raised by the motion, are factual issues that require sworn testimony and the opportunity for cross-examination.

Comprehensive examination of the utilities' daily balancing proposal is not possible when the only support for the proposal consists of untested statements by counsel. The utilities' proposal can only be given the complete review required if the proposal is reflected in an application, the application is accompanied by prepared testimony, and the sponsors of the prepared testimony are subject to cross-examination. The utilities' motion should be dismissed with direction to submit their daily balancing proposal, if at all, through a formal application.

Finally, according to the certificate of service attached to the motion, SoCalGas/SDG&E's daily balancing proposal was served exclusively on the service list in this "curtailment" proceeding. In other words, the utilities' proposal to impose a daily balancing obligation, which would apply to all customers (and to all shippers) delivering gas on the SoCalGas/SDG&E system, was not formally served on all potentially affected entities. This filing thus raises issues of "notice" and "due process." In addition to noncore customers, all core aggregation customers, out-of-state suppliers, wholesale customers, noncore marketers and core transport agents ("CTA") would be directly and substantially affected by this proposed rule change. A proposed operational change of this magnitude, and of such broad application, should be served on all customers, and all shippers, not just the service list in a specific ongoing application proceeding.

#### III.

# THE UTILITIES FAIL TO EXPLAIN WHY THE RECENTLY UPDATED OFO PROTOCOLS ARE NOT ADEQUATE TO ADDRESS INSTANCES OF "SYSTEM STRESS"

In D.15-06-004, the Commission adopted a "low OFO" protocol to complement SoCalGas/SDG&E's "high OFO" protocol, and to replace the utilities' winter balancing rules. In prepared testimony in this curtailment proceeding, SoCalGas/SDG&E's policy witness states that the adopted low OFO protocol provides a "unified statewide approach to dealing with low levels of flowing supplies during times of system stress." Prepared Testimony of G. Marelli at p. 3.

In D.15-06-004, the Commission explained that it was necessary to adopt a low OFO protocol because SoCalGas/SDG&E's then-current winter balancing rules were not adequate to maintain system reliability during periods when insufficient gas supplies are delivered to

SoCalGas/SDG&E receipt points to meet customer demand. The Commission explained: "While Applicants have been able to provide balancing services to customers without creating system reliability issues, Applicants' storage assets are not sufficient to ensure reliable deliveries to Applicants' customers during times of system stress when deliveries from customers and marketers are lower than usage." Decision at p. 12 (emphasis added). The Commission adopted a low OFO protocol for SoCalGas/SDG&E to ensure that system reliability is maintained in circumstances when storage injection/withdrawal capacity is inadequate. "Inadequate" storage injection/withdrawal is exactly the circumstance that SoCalGas/SDG&E describe in their motion. See Motion at p. 4.

The Commission's June 2015 decision adopting a low OFO protocol anticipated the very type of conditions that SoCalGas and SDG&E describe in their motion. The Commission approved a low OFO protocol in order to protect system reliability in the event of "system stress." Under such conditions, based on the adopted OFO protocol, SoCalGas and SDG&E have the authority to invoke daily balancing to ensure that sufficient (and not excessive) deliveries of gas are made to SoCalGas/SDG&E receipt points on a day when there is inadequate storage withdrawal (or injection) capability to meet customer demand. In fact, under the low (and high) OFO protocol, the utilities have flexibility to establish the level of "incentives" (imbalance tolerance band and noncompliance charges) necessary to ensure that adequate supplies are delivered to the utilities' systems based on the circumstances.

The Commission emphasized, in D.15-06-004, that the adopted low OFO protocol includes a graduated tolerance band and a graduated level of noncompliance charges to meet the needs of a particular situation. See Decision at p. 13. The Commission stated that these graduated OFO implementation tools enable the utilities to "implement these requirements and

penalties in a more precise and predictable fashion and with less risk of curtailment of transportation service to noncore and core customers." <u>Id</u>. The Commission also noted that adoption of graduated balancing tolerances and graduated penalties "could result in cost savings for [the utilities'] customers." <u>Id</u>.

Under the approved OFO protocol, the graduated levels of a daily imbalance tolerance band, and the graduated levels of a daily noncompliance charge, combine to provide the utilities with flexibility to tailor an OFO to the circumstances projected for the specific gas flow date. The flexibility of the low OFO protocol matches the variability in levels of "system stress" that may necessitate an OFO order. By contrast, there is no flexibility with the 5 percent universal daily balancing tolerance advanced herein by SoCalGas/SDG&E. SoCalGas/SDG&E have not justified the use of a blunderbuss approach to daily balancing when a rifle shot OFO approach is sufficient.

Finally, in D.15-06-004, the Commission emphasized that it approved a low OFO protocol on the SoCalGas/SDG&E system to match PG&E's OFO rules. The Commission stated: "By adopting a statewide approach to low flowing supplies coming into California during times of system stress, there is a chance to prevent balancing rules in northern California from creating operational problems in southern California." Decision at pp. 14, 27; see also p. 36, Finding of Fact No. 20.<sup>3</sup>

<sup>&</sup>lt;sup>3</sup> In this connection, the Commission was careful to adopt noncompliance penalties for SoCalGas/SDG&E that are equivalent to the noncompliance charges imposed by PG&E under its low OFO protocol. The Commission noted that a "different noncompliance charge on Applicants' system could result in a large price disparity between the Applicants' and PG&E systems that 'would shift the current problem from SoCalGas and SDG&E to PG&E because shippers will deliver their gas to the higher priced market." Decision at pp. 27-28. On this basis, the Commission approved OFO noncompliance charges for SoCalGas/SDG&E that are "comparable to PG&E's." Id.

In testimony supporting SoCalGas/SDG&E's low OFO protocol, SoCalGas/SDG&E witnesses repeatedly emphasized the advisability of adopting parallel operational rules on the SoCalGas/SDG&E system and the PG&E system. PG&E does not have mandatory daily balancing for customers and shippers on its system. In fact, in the aftermath of the San Bruno pipeline explosion, PG&E used its existing OFO protocol between July 8, 2011, and November 20, 2011, during the period when its Baja path capacity was derated. In order to manage flows within tight tolerances during that time (146 total days), PG&E called simultaneous, system-wide low- and high OFOs each day. Instead of adopting a universal 5 percent daily balancing requirement, PG&E leaned on the OFO tools already at its disposal to manage system integrity.

In the same way that PG&E used its existing tools in response to its Baja path capacity reduction, SoCalGas should use the operational tools already available to it to address operational issues arising from the Aliso Canyon disruption. SoCalGas/SDG&E's motion seeking approval of universal daily balancing on the SoCalGas/SDG&E system fails to address the utilities' ability to use their OFO protocol in these circumstances. Moreover, the utilities' motion fails to address the gas supply delivery consequences in northern California (and southern California) if universal daily balancing is adopted for SoCalGas/SDG&E, while PG&E continues to have a default monthly balancing requirement.

IV.

SOCALGAS/SDG&E IMPROPERLY RELY UPON THE ALISO CANYON DISRUPTION TO ATTEMPT TO JUSTIFY A BALANCING PROTOCOL THAT THEY HAVE LONG SOUGHT TO IMPLEMENT

SoCalGas/SDG&E's motion provides an extensive discussion of the Aliso Canyon disruption, including a description of regulatory actions limiting injections into and withdrawals

from Aliso Canyon. SoCalGas/SDG&E claim that unless SoCalGas is permitted "soon" to resume injections into Aliso Canyon, "the low level of working inventory at the field could have an effect on reliability in the months to come." Motion at p. 2.

Even with limited access to Aliso Canyon, however, daily balancing is not necessary on most days. In fact, since December 10, 2015, when the State's Division of Oil, Gas and Geothermal Resources ("DOGGR") directed SoCalGas to maximize withdrawals from Aliso Canyon and prohibited injections into Aliso Canyon, SoCalGas/SDG&E have invoked a low OFO on 7 days, and a high OFO on 10 days, out of the total 98 days. Through the use of their OFO protocol, SoCalGas/SDG&E have been able to institute daily balancing when and as necessary to ensure adequate supplies are delivered to the system on those days when storage withdrawal capability is not enough to address a projected shortfall in deliveries to the SoCalGas/SDG&E system. Regardless of the cause of "system stress," the low OFO protocol is adequate to ensure system reliability.

In light of the Commission's recent decision to adopt a low OFO protocol for SoCalGas/SDG&E, and in light of SoCalGas/SDG&E's previous testimony that the very purpose of a low OFO protocol is to ensure system reliability during periods of "system stress," the Commission should conclude that SoCalGas/SDG&E's proposal to implement daily balancing every day for the next year (and to allow SoCalGas/SDG&E to extend daily balancing for successive one-year terms through a Tier 2 advice filing) is unnecessary. As discussed below, the Commission should be concerned that SoCalGas/SDG&E's motion is motivated by the utilities' longstanding desire to implement permanent, universal daily balancing. The Commission should see through this attempt by the utilities to take advantage of a disruption at

Aliso Canyon to invoke an operational change that increases market power enjoyed by SoCalGas' core procurement department.

V.

# A UNIVERSAL DAILY BALANCING OBLIGATION WOULD POSITION SOCALGAS AS THE ONLY ENTITY CONSISTENTLY ABLE TO OFFER DAILY IMBALANCE TRADING

If adopted, the utilities' proposal to impose a daily balancing requirement on all customers would provide SoCalGas with a competitive market advantage. Owing to the different balancing rules that apply to core customers and noncore customers, a universal daily balancing obligation would position SoCalGas as the only entity consistently able to participate in the daily imbalance trading market. Owing to SoCalGas' position as the supplier of gas to most of the SoCalGas/SDG&E core market, SoCalGas has the opportunity to benefit financially whenever daily balancing is invoked. No other shipper or supplier has the same flexibility as SoCalGas to profit from daily imbalance trading. Under universal daily balancing, SoCalGas/SDG&E's shareholders would benefit under the GCIM, at the expense of noncore customers and other market participants.

This competitive advantage for SoCalGas and SDG&E exists as a result of the following balancing rules: When daily balancing is invoked (through the current OFO protocol), noncore customers must balance daily deliveries against <u>actual</u> daily usage. For most noncore customers, actual daily usage does not become apparent until (or even after) the last intra-day nomination cycle. By contrast, SoCalGas (on behalf of SoCalGas/SDG&E bundled core sales customers) must balance deliveries on behalf of the core against a <u>forecast</u> of daily core usage ("Daily Contract Quantity") that is provided by SoCalGas in advance of the gas flow date. This forecast

is fixed for the utilities' core load through all nomination cycles. There is no "guessing" involved in balancing for SoCalGas' core procurement department.

With its access to firm interstate capacity rights, firm backbone transmission service ("BTS") rights, and firm storage injection/withdrawal rights held on behalf of its bundled core sales customers, SoCalGas has unique flexibility to purchase more or less gas for its bundled core load depending on market conditions, as long as SoCalGas matches the fixed daily forecast of core load within a 5 percent tolerance. This means that SoCalGas has unique flexibility to purchase gas from -- or sell gas to -- noncore shippers at "distressed market" prices in the imbalance trading market to enable noncore shippers to remain in balance through the intra-day nomination cycles, so that noncore customers avoid daily imbalance compliance charges.

Moreover, there are frequent occasions when SoCalGas' daily forecast of core demand (against which SoCalGas balances) <u>over-states</u> actual core demand. When this occurs, the resulting system imbalance leads SoCalGas/SDG&E to "allocate" or "cut" receipt point deliveries. This, in turn, makes it difficult, if not impossible, for noncore customers to comply with a daily balancing obligation. Thus, the core balancing approach (which is based on a fixed forecast) not only provides SoCalGas/SDG&E with a competitive advantage, it also creates the conditions under which noncore customers may be prevented from meeting a daily balancing obligation.

A universal daily balancing requirement would create an artificial construct in which SoCalGas is placed in a superior position to serve as the supplier of last resort -- or the purchaser of last resort -- for noncore shippers seeking to stay in balance on a daily basis when noncore demand fluctuates through the intra-day nomination cycles. In addition to financially benefitting

SoCalGas/SDG&E shareholders, a daily balancing obligation could potentially drive noncore customers to switch to core status, and to bundled gas sales service.

Given the fact that noncore customers returning to core service must remain on core service for five years, the potential for increased noncore-to-core switching under a daily balancing regime is particularly troubling. A universal daily balancing obligation would unfairly advantage SoCalGas' core procurement department (and SoCalGas/SDG&E's shareholders) under the GCIM, to the detriment of noncore customers.

#### VI.

# SOCALGAS/SDG&E'S PROPOSAL RAISES FACTUAL ISSUES AND POLICY ISSUES THAT SHOULD BE ADDRESSED, BUT NOT IN THIS "CURTAILMENT" APPLICATION

SoCalGas/SDG&E's motion to adopt a temporary daily balancing obligation raises myriad issues that require consideration through testimony and cross-examination. Factual issues include: how, under daily balancing, SoCalGas/SDG&E would allocate firm capacity rights at specific receipt points; how SoCalGas/SDG&E would impose "cuts" with respect to firm storage injection and withdrawal rights; and how SoCalGas/SDG&E would compensate shippers when firm BTS capacity rights, or firm storage rights, are confiscated by SoCalGas/SDG&E. Factual issues also arise with respect to the impact of daily balancing on gas-fired electric generation facilities; computation of the daily imbalance noncompliance charge ("highest daily border price index"); whether (and during what period) daily imbalances may be traded, or whether daily imbalances outside the tolerance band are penalized without an opportunity for trading; and whether core customers should be required to balance, like noncore customers, against "actual usage."

In this connection, SoCalGas/SDG&E's motion fails to address whether SoCalGas now has the capability to use actual core customer usage as the basis for the daily balancing requirement for core customers. On February 26, 2016, in A.08-09-023, SoCalGas submitted a semi-annual report stating that it has installed, as of December 31, 2015, 4.6 million automated meters ("AMI") reflecting upgrades to 76 percent of its meters. In view of the cost of this AMI program (nearly \$900 million thus far), and in view of the progress that SoCalGas has made in installing AMI meters, the utilities' longstanding justification for differential balancing treatment of noncore customers and core customers no longer exists.

As addressed above, the inaccuracy of SoCalGas' daily core forecast contributes to noncore customers' inability to meet a daily balancing obligation. If, in this proceeding (or in a future application proceeding), the Commission considers the possibility of a universal daily balancing obligation, an issue that must be addressed is whether core customers, like noncore customers, must balance based on actual customer usage.

A further policy issue is whether, in light of the Aliso Canyon disruption, SoCalGas should be required to divest its storage facilities through a competitive auction process. Divestiture of SoCalGas' storage assets could increase competition and accountability in connection with the operation and maintenance of gas storage facilities in southern California. The Commission should consider whether the absence of competition in the natural gas storage market in southern California contributed to the problems at Aliso Canyon. Divestiture of SoCalGas' existing storage facilities, and third party ownership and operation of any new gas storage facilities, may be an appropriate response to concerns about the operation of SoCalGas' storage assets.

An additional consideration is whether daily balancing would affect electric system reliability. Electric grid reliability depends on flexibility in the natural gas supply system, allowing the grid operator to dispatch natural gas-fired power plants in real time to balance the electric grid. While load serving entities schedule load and supply in the CAISO on a day-ahead basis, variations in load (due to temperature, manufacturing processes and the difficulty of scheduling renewable generation) typically require significant real-time dispatch of gas-fired generation. The delivery of gas for real-time dispatch typically relies on linepack and normal system imbalances.

Adoption of the SoCalGas/SDG&E motion could result in multiple unintended consequences for the electric market, including the lack of availability of flexible capacity bids in the SoCalGas/SDG&E service area, reliance on generation connected to different gas utility systems, unanticipated electric grid congestion (such as on Path 26 and Path 15), and a need to leave some East-of-River and West-of-River transmission capacity available for real-time dispatch electricity supply, thus precluding economic supplies of energy to the LA Basin. Adoption of a daily balancing obligation would ignore these potential electric system consequences. SoCalGas/SDG&E's motion fails to address whether a universal daily balancing obligation may encourage gas-fired electric generators to self-schedule, thereby reducing or eliminating CAISO dispatch flexibility.<sup>4</sup>

<sup>&</sup>lt;sup>4</sup> If the Commission were to consider daily balancing, the Commission must work with the CAISO to ensure an alignment of cost recovery for real-time dispatch of electric generation capacity. Such an alignment would provide compensation for the 150 percent penalty that electric generation would incur for real-time dispatch, and for which there is no present mechanism to provide cost recovery to electric generation facilities.

The Commission should also consider alternatives to mandatory daily balancing. For example, the Commission should consider, in light of SoCalGas' reduced firm storage availability, whether noncore customers on the SoCalGas/SDG&E system should receive a rate "credit" if they voluntarily agree to balance on a daily basis. Put another way, instead of structuring a program that would penalize shippers with extremely onerous limitations and noncompliance charges, the Commission should consider structuring a program that pays customers and/or suppliers for services and actions that alleviate reliability and/or operational concerns. Indeed, voluntary daily balancing with a rate credit is offered on the PG&E system, and should be considered on the SoCalGas system, as well.

Other alternatives to the utilities' proposed universal daily balancing obligation include a wider daily imbalance tolerance, simultaneous high- and low OFOs, netting customers' imbalances, and posting additional system data to provide greater transparency. These alternatives should be considered through an evidentiary hearing process.

SoCalGas/SDG&E seem to believe that the Commission can adopt a transformative change to a fundamental feature of the utilities' gas operation protocols through a motion, supported only by statements of counsel, submitted in a proceeding devoted to a different issue. SoCalGas/SDG&E's motion utterly fails to consider the consequences of the utilities' proposal -- on the gas market as well as the electric market. In an effort to increase gas system reliability, SoCalGas/SDG&E's proposal may, if adopted, reduce gas system reliability, diminish competition in the imbalance trading market, and jeopardize electric system reliability. The Commission should dismiss the utilities' motion, and should admonish the utilities not to try to circumvent proper procedural channels when advancing a proposal of this magnitude.

### VII.

#### **CONCLUSION**

For the reasons set forth above, SoCalGas/SDG&E's motion should be dismissed. The utilities' proposal is beyond the scope of this proceeding. The proposal should be advanced, if at all, through a formal application. Moreover, the motion fails to demonstrate that the recently amended OFO protocol is not sufficient to address the alleged "reliability" challenges associated with injection/withdrawal limitations imposed at Aliso Canyon.

The SoCalGas/SDG&E motion also fails to address the impacts of their proposal on competition, and on electric system reliability. The motion also fails to address whether a market power motivation exists for SoCalGas/SDG&E's proposal. The motion is out of order.

Respectfully submitted,

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